SMALL BUSINESS STRATEGIES • RACETRACK MARKETING • DEALERS AS PARTNERS

JUNE 1991

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

BIG BROTHER LIVES

ARE MANAGERS ABUSING ELECTRONIC MONITORING?

SPECIAL SUPPLEMENT

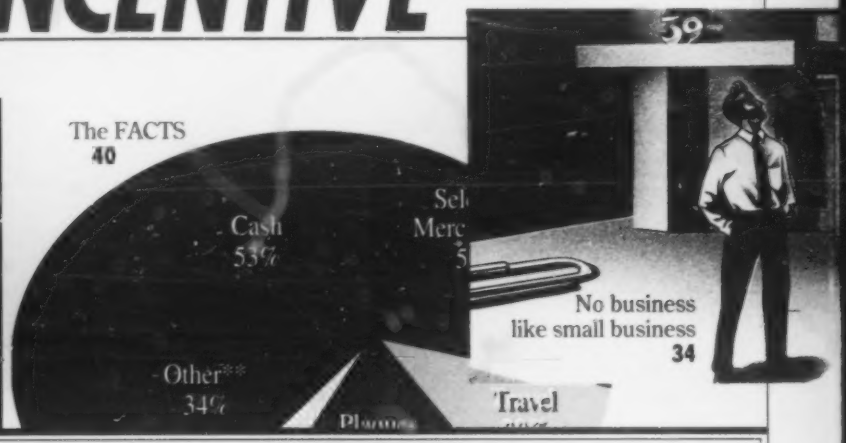
HOW TO RUN A SAFETY INCENTIVE PROGRAM

A BILL PUBLICATION

87TH YEAR, VOL. 165, NO. 6 JUNE 1991

INCENTIVE

28 Day at the races



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Cover illustration by Mark Moscarillo

Incentive covers all the ways companies motivate consumers to buy, salespeople to sell and employees to work more effectively, with a special emphasis on incentives, promotions and training.

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SPECIAL SUPPLEMENT

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FROM THE EDITOR

THE FUTURE OF MARKETING

BY BRUCE BOLGER

The major problems recently reported with Citicorp's ambitious point-of-sale database system have cast a shadow on frequency marketing. Some people are predicting the concept's demise even before it has truly begun.

While I can't argue for or against Citicorp's particular approach to frequency marketing, I still see a strong future for the strategy of tracking individual customer purchases and rewarding good customers with extra value. Marketers' fundamental need to know their customers, and the growing power of computers to process and segment vast amounts of data, ensure that companies will continue to pursue the holy grail of marketing: targeting with pinpoint accuracy.

The marketer's dream of tracking every individual's purchases still faces serious obstacles, including lack of widespread technology, lack of system standardization, high cost, reticence of retailers to cooperate and public concerns about privacy. Many retailers feel their profit margins remain too narrow to justify a major investment in time and money to make such programs work, and many are even more reluctant to cooperate with competitors or suppliers. And growing numbers of Americans have become concerned about the amount of information freely available about their purchases and actions.

Despite these problems, the increasing need to improve marketing efficiency will continue to spur marketers to make frequency marketing work. Its purpose is not only to motivate customers to come back, but to find out just who is buying what. Such data will allow marketers to sharpen the focus of their advertising and marketing, even to the point of targeting what products are most likely to sell in a given store.

Frequency marketing also promises to reduce the amount of irrelevant direct mail people receive. With marketers better able to determine who buys what, a father of two young children would be more likely to receive direct mail on a diaper promotion than a trek in Nepal.

So to those who predict the demise of frequency marketing, I say: Don't count on it. But to those investing their life savings in it, I say: Don't bet on a quick return, either. It could take a decade more before frequency marketing achieves its full potential.

We're very proud to run a new booklet, "How to Run a Safety Incentive Program," right after featuring our very successful "How to Run an Incentive Program," published in May. We would especially like to thank John Donovan, manager of contract sales and marketing at Stanley Tools, without whose efforts this book would not have been possible.

Bruce Bolger

Incentive/Managing and Marketing Through Motivation® (ISSN 0019-3364; USPS 799-880) is published monthly by Bill Communications, Inc., 341 White Pond Dr., Akron, OH 44320. Corporate and editorial headquarters: 633 Third Ave., New York, NY 10017. Subscriptions: US—$48, Canada/Foreign—$75, single copies—$5. December FACTS issue—$15.

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Postmaster: Send change of address to Incentive/Managing and Marketing Through Motivation, Box 3599, Akron, OH 44309-3599, fax (216) 867-0019. Second Class postage paid at Akron, OH, and at additional mailing offices.

EMPLOYEE
MOTIVATION

FACTS SURVEY
NON-SALES INCENTIVES

Spending is at a standstill, but companies divert more dollars to tangible rewards.

Blame the rising unemployment rates. Blame the economy. Both seem to have brought the growth of non-sales incentive awards to a virtual standstill this year.

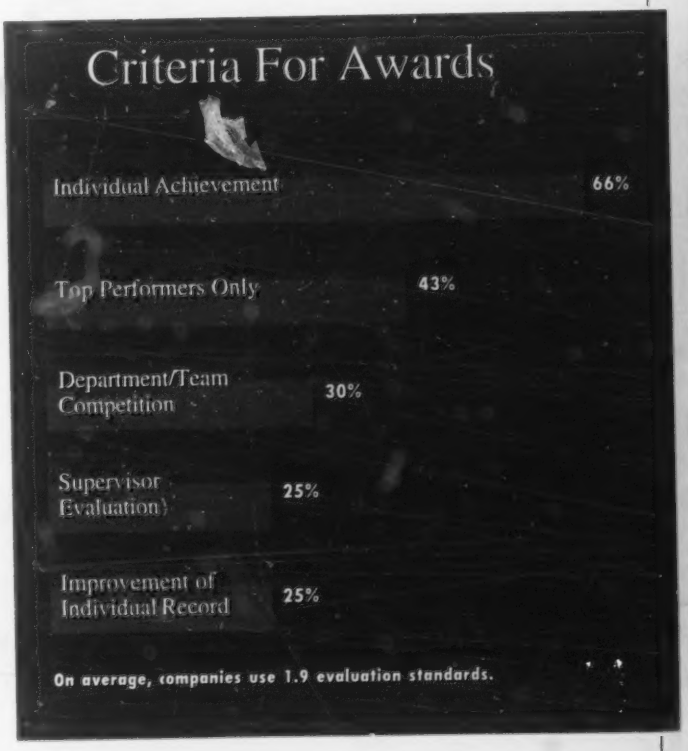
The recession appears to have checked the expansion of what for several years was the fastest-growing area of incentive awards. Users' budget estimates in the latest **Incentive** survey indicate a mere 2.4 percent increase over 1990 actual spending, well below the inflation rate.

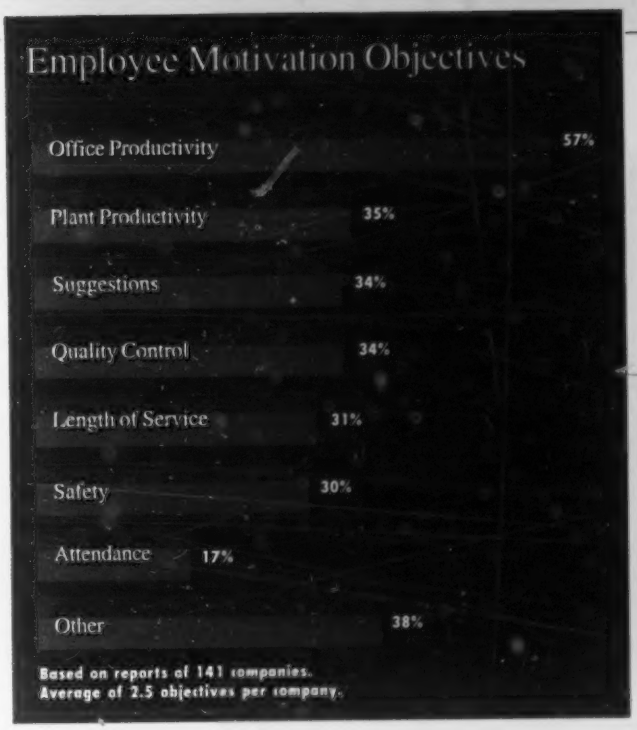
Only 29 percent of the executives surveyed say they're planning higher expenditures this year, and most of those increases are small; 6 percent are reducing their programs, and the remaining 65 percent are standing pat with last year's budgets.

The 141 companies that reported 1990 (actual) and 1991 (projected) budgets say they aren't discriminating against non-sales employees. In fact, their planned outlays for both sales-force and dealer incentives, while somewhat larger, are also sluggish, growing by just 2.8 percent and 4.8 percent respectively versus 1990's expenditures.

There's good news, though: For the first time, the survey shows that cash no longer reigns supreme as an incentive award. Respondents report spending an average of 32 percent of their award budgets on merchandise

Criteria For Awards



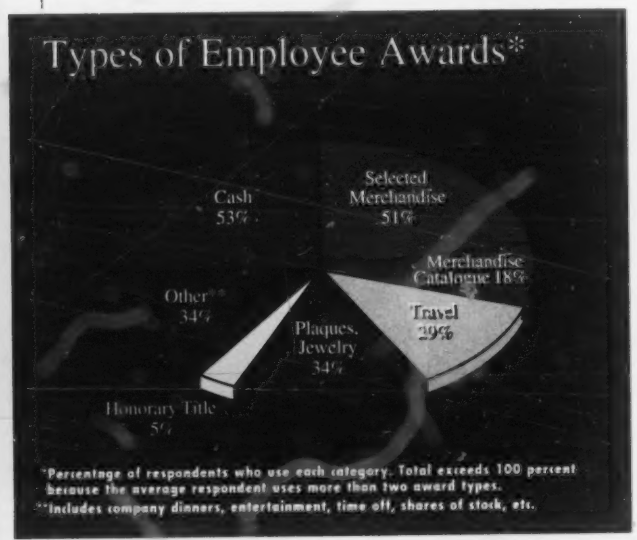


incentives, compared to 30 percent on cash prizes. Travel draws 17 percent of their award dollars, with recognition awards (trophies and plaques chief among them) capturing 21 percent.

In addition, more firms are using merchandise awards than cash—75 percent versus 63 percent. The percentages do indicate, however, that many use both; in fact, with 47 percent now using travel and 70 percent bestowing recognition awards, the total reveals that companies use an average of 2.5 types of awards per program.

More merchandise users seem to be selecting specific items rather than relying on catalogues. Last year's survey showed 58 percent of merchandise users featuring specific items in their programs, rather than using catalogues. This year, the number has risen to 74 percent, with only 26 percent asking employees to pick awards from stock assortments.

Last year's survey showed a large increase in the use of merchandise, but cash still came out on top by a good margin. The current trend seems to confirm not only that more managers are recognizing the advantages of presenting tangible awards, but also that those who spend for safety and length-of-service awards are taking advantage of the tax benefit conferred on merchandise users by the Tax Reform Act of 1986. That law provides that such awards (with some dollar limits) are excludable from employee income as well as deductible by the company; cash awards, however, do not qualify for tax-free status. Industry members also hope that Congress will expand these provisions to include awards for other types of programs, such as productivity, quality improvement, suggestion and attendance.


Types of Employee Awards*
Cash 53%
Selected Merchandise 51%
Merchandise Catalogue 18%
Travel 29%
Plaques, Jewelry 34%
Other** 34%
Honorary Title 5%
*Percentage of respondents who use each category. Total exceeds 100 percent because the average respondent uses more than two award types.
**Includes company dinners, entertainment, time off, shares of stock, etc.

Employee recognition programs, meanwhile, continue to move out of the realm of theory and more into corporate practice. "We're just beginning to use employee recognition and incentives for non-sales employees," says John Barry, vice president of sales at Dana Commercial Credit, Troy, Mich. "We first must overcome the built-in bias that management has historically had against incentives for inside servicing roles. The typical response has been, 'We pay them a salary to do the job.' Today we must recognize that the real delivery of product takes place when the inside market-support staffs interface with customers. We will be forming incentives for this level of services in 1991."

A Midwestern paper company's incentive plan is based on a similar premise. "Because our products sell

themselves," says an executive, "and we rely on distributor salespeople, we have to offer incentives to our production employees to keep up with the sales volume. We have found merchandise incentives to be an effective way of increasing production." Both plant and office personnel participate in this company's plan, with 25 percent earning awards worth from $100 to $250 during four 13-week campaigns each year.

The cost of incentive awards ranges widely, from just a few dollars to several thousand. In this year's survey, the average unit cost is $539 and the median $100. Both are substantially higher than in last year's study, which yielded a $345 average and $50 median.

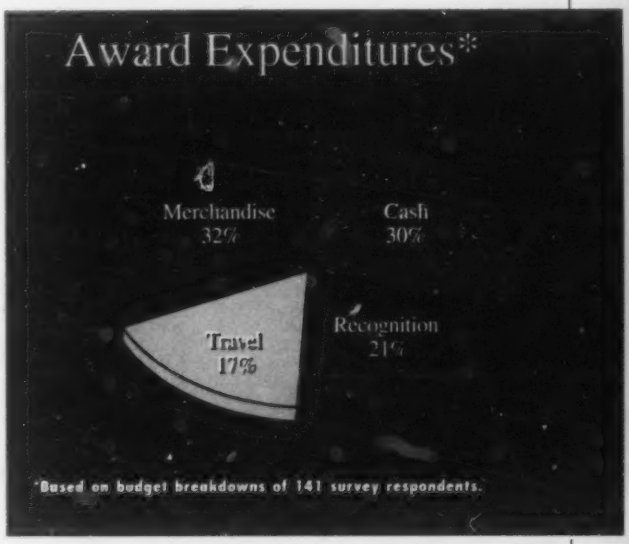
More expensive prizes tend to accompany longer programs, and respondents' campaigns now average 12 weeks, compared to 8 weeks a year ago. Though fewer people are eligible to win (an average of 60 percent of all employees have the chance to participate, compared with 76 percent in 1990's reports), more people are actually winning—47 percent of those eligible, versus 43 percent last year. This year's median is 40 percent, up from 30 percent last year.

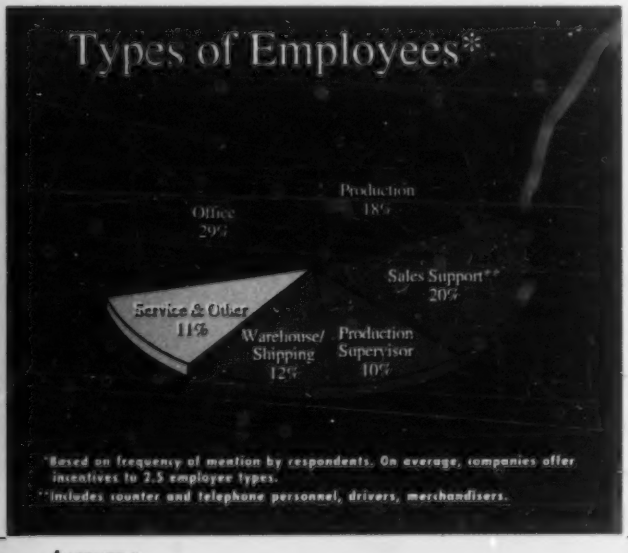
Productivity tops the list of objectives in employee incentive programs, as shown in the chart on page 42. This year's survey group emphasizes office productivity (57 percent) over plant productivity (35 percent), a major shift in the balance from last year's 47/42-percent split between the two.

For example, a suggestion program is spurring performance at an Eastern publishing company. The program offers awards to more than 200 people, of whom about half win. "Our incentive programs are geared to rewarding good performance in all divisions and at all levels of our company," writes an executive. Incentives include tickets to shows, speed boats and Caribbean cruises. "Many of our most important ideas have come from our employee suggestion programs—and why shouldn't they?" the executive states. "Staff and line employees are closest to our customers. They know what our customers want and need, and we're in business to service their needs."

An industrial chemical manufacturer reports that about 60 percent of its 280 employees earn cash prizes and gift certificates in a team suggestion program. A formal suggestion program begun in April 1990 yielded an increase in suggestions to 310 from the 90 submitted in 1989, the company says. The program cost less than $4,000.

Three of 10 respondents emphasize safety in their employee motivation programs, and some report dramatic results: "489 consecutive days worked without a lost-time accident," declares a Midwestern machinery manufacturer. Another Midwestern manufacturer boasts of "six years and four months with no lost-time accidents...and 33 percent of employees with perfect attendance




Types of Employees*
Production 18%
Office 29%
Sales Support** 20%
Service & Other 11%
Warehouse/ Shipping 12%
Production Supervisor 10%
*Based on frequency of mention by respondents. On average, companies offer incentives to 2.5 employee types.
**Includes counter and telephone personnel, drivers, merchandisers.

for the year." The plant manager points out that 100 percent of his work force won awards in the program, which offers selected merchandise items, travel and cash prizes ranging in cost from $10 to $5,000.

David J. McFarland, manager of safety and worker's compensation for Consolidated Personnel Company, a Chesterfield, Mo., driver leasing firm, targets truck-driver safety in one incentive program. The company's Driver of the Year won a trip to Hawaii and a gold ring last year, while divisional drivers of the month were offered jackets, watches, award pins, uniform patches and wallet cards.

The program objective: reduction of on-the-job injuries and vehicle accidents. "As an extra benefit, we also have seen the pride displayed by our drivers after receiving their deserved recognition," McFarland says.

Individual achievement remains the most popular measure of performance used in non-sales incentive campaigns, favored by 66 percent of respondents. Top performers—and only top performers—are selected in 43 percent of respondents' programs, a situation providing fewer winners but stronger recognition value for them. Departmental or team performance is the program structure applied by 30 percent.

Promoting the program. How do companies promote these incentive programs? Employee meetings are the top choice, listed by 85 percent, up 10 percentage points from a year ago. Perhaps equally important is the increase in the supervisors' role in promotion: They are counted on by 54 percent to talk up the program, compared with 43 percent last year. Also, 54 percent use posters and bulletin boards for promotion, while 43 percent advertise their awards through employee publications and 19 percent by mailings to workers' homes.

Recognition remains a critical element of employee incentive campaigns. The main mode is meetings: 69 percent use company-wide meetings to announce and celebrate winners, and 46 percent stage departmental meetings. Other means of recognition include company publications, 42 percent; bulletin boards, 37 percent, and press releases, 11 percent. About 27 percent practice a "private presentation" of the award.

Finally, a number of companies find value in letting award winners be selected by their peers. "The most successful program," says a California manufacturer, "is one we implemented in 1990, where each person in the company votes for one person who has been the most helpful throughout the year. A shipping person won, and her whole department's attitude and outlook was much brighter: It was nice for them to see a department other than sales or manufacturing getting the recognition." □

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